

Markets This Week Ahead of the Open

Key Takeaways

- Markets are beginning to price in a more prolonged conflict with Iran
 - Cooling CPI largely overlooked as it preceded the Iranian conflict
 - The BEA's second estimate of Q4 GDP for 2025 revised down its advance estimate
 - The Fed's favored inflation gauge showed prices rising above the Fed's 2% target
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Equities this week continued to remain down amid an increasingly volatile geopolitical environment and signs of a slowing U.S. economy.

This past week saw the release of key economic data including the CPI, GDP, and PCE reports. This month's CPI report, which demonstrated price behavior for February, showed that prices had risen at the same rate at which they rose in January for both its core and non-core figures. Despite signaling cooling inflation, markets weren't convinced given that this report reported data prior to the start of the Iranian conflict.

On Friday we had seen the BEA release its GDP and PCE data, data that amplified stagflation concerns. The BEA's second estimate of Q4 2025 real GDP had revised its advanced estimate down to .7%, on an annualized basis, from 1.4%. While this month's GDP data pointed to a slowing economy, the PCE report indicated rising inflation. The PCE report, which is the Fed's favored inflation gauge, had showed that the Core PCE index, which excludes food and energy, was up 3.1% from a year ago. The non-core index was up 2.8%. Taken together, this data is concerning, especially after it follows a jobs report that showed the economy losing jobs. Add to this the notion that the impacts of the Iranian conflict have not yet been reflected within these figures, it's clear to see where these stagflation concerns are stemming from.

As the conflict with Iran continues on, energy prices remain elevated due to rising oil prices. This relationship has weighed down on equities while shifting expectations surrounding monetary policy moving forward. Rising oil prices tend to have a magnified impact which ultimately leads to more expensive goods and services. Alongside this it also raises energy prices, which reduces disposable incomes and operating costs nationwide. This impact has been instant, and has been reflected across both equities and yields. Equities have remained down, while yields have continued to rise. Through the rise in yields, we have also seen the dollar appreciate, while haven-assets such as gold and silver, which are non-yielding, have moved in the opposite direction.

What's also been at the forefront of this conflict is what its impact could mean for monetary policy, globally, moving forward. This coming Wednesday, the Bank of England, the Federal Reserve, and the European central bank are all set to hold policy meetings. Markets have priced in the central banks holding rates steady amid rising inflation expectations and slowing economic growth. The duration of this conflict, and the expectations surrounding it, have been the main driver behind how assets classes across markets have performed these past

two weeks. Oil price action has also been, and continues to be, the focal point of this conflict, and any further disruptions to production or distribution could extend its market impact. Going forward, focus will be on developments in the conflict and whether they signal de-escalation or further escalation.